

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

SB 987 - HB 1109

March 7, 2017

SUMMARY OF BILL: Deletes the existing requirement for a student to meet one of the following in order to qualify for the Individualized Education Account (IEA) Program: (1) was previously enrolled in a Tennessee public school during the previous two semesters; (2) is attending a Tennessee school for the first time; or (3) received an IEA in the previous academic year.

ESTIMATED FISCAL IMPACT:

Increase State Revenue –

\$5,000/FY18-19/Department of Education

\$5,400/FY19-20/Department of Education

\$5,500/FY20-21/Department of Education

Exceeds \$5,500/FY21-22 and Subsequent Years/Department of Education

Increase Local Expenditures – Exceeds \$37,400/FY18-19*

Other Fiscal Impact – For local education agencies (LEAs) with students that opt to participate in the IEA program, the net shift of state and required local BEP funding from these local education agencies to the participating entities, is estimated as follows: \$119,600 in FY18-19; \$129,400 in FY19-20; \$133,300 in FY20-21; and amounts exceeding \$133,300 in FY21-22 and subsequent years.

Assumptions relative to Local Expenditures and BEP transfer:

- Though the exact number of annually participating students is unknown, it is reasonably estimated that a minimum of one percent or 18 students of the 1,847 eligible students will participate beginning in FY18-19 as a result of the bill.
- In order to participate in the IEA program, the student must have an Individualized Education Plan (IEP).
- To receive an IEP, the student must be enrolled in school at least 60 days.
- For the purposes of this fiscal note, it is assumed that the student is enrolled in the second semester of the school year for at least 60 days. This allows the student to be weighted as 70 percent for the purposes of calculating the Average Daily Membership (ADM), which drives the BEP funding formula; therefore, in FY18-19, for students leaving an LEA and instead pursuing an IEA, 70 percent of the funding for that student is assumed to be covered

by the BEP, and 30 percent will be covered by LEAs where the requisite students studied before entering the IEA program.

- The state and local Per Pupil Expenditures (PPE), which make up the scholarships for each student is currently \$6,922.
- In FY18-19, and given the assumption the requisite students are enrolled in the second semester for at least 60 days, the mandatory recurring increase in local government expenditures is estimated to exceed \$37,379 (\$6,922 x 18 students x minimum 30.0%).

Assumptions relative to BEP Transfer and State Revenue

- The number of participating students is estimated to increase by 2.5 percent per year.
- The required state and local Basic Education Program (BEP) expenditures are utilized as the funding source with an estimated PPE funding growth of 2.5 percent annually.
- Statewide Program Student Enrollment Estimates:
 - In FY18-19, an estimated 18 students will participate.
 - In FY19-20, an estimated 19 students will participate.
 - In FY20-21, an estimated 19 students will participate.
 - In FY21-22 and subsequent years, more than 19 students will participate.
- Total Statewide Program Estimates (Gross):
 - In FY18-19, an estimated \$124,596 (\$6,922 x 18 students) will shift from LEAs to participating schools.
 - In FY19-20, an estimated \$134,805 (\$7,095 x 19 students) will shift from LEAs to participating schools.
 - In FY20-21, an estimated \$138,168 (\$7,272 x 19 students) will shift from LEAs to participating schools.
 - In FY21-22 and subsequent years, an amount estimated to exceed \$138,168 will shift from LEAs to participating schools.
- Pursuant to Tenn. Code Ann. § 49-10-1405(b), the Department of Education (DOE) will retain a four percent administrative fee from BEP funds otherwise shifting to participating schools as a result of additional students participating in the IEA program beginning in FY18-19.
- The increase in state administrative fee revenue to the DOE for IEA administration is estimated in the table below.

| State Admin Fee | FY18-19 | FY19-20 | FY20-21 |
|-----------------|---------|---------|---------|
| 4% | \$4,984 | \$5,392 | \$5,527 |

- The increase in state revenue to the DOE is estimated to exceed \$5,527 in FY21-22 and subsequent years.
- Total Statewide Program Estimates (Net):
 - In FY18-19, an estimated \$119,612 (\$124,596 - \$4,984) will shift from LEAs to participating schools.
 - In FY19-20, an estimated \$129,413 (\$134,805 - \$5,392) will shift from LEAs to participating schools.

- In FY20-21, an estimated \$133,277 (\$138,168 – \$5,527) will shift from LEAs to participating schools.
- In FY21-22 and subsequent years, an amount estimated to exceed \$133,277 will shift from LEAs to participating schools.

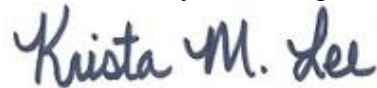
Assumptions relative to LEA fund retention:

- The BEP maintenance of effort requires that local government continue to fund their LEA at the same level year-to-year unless there is a decrease in enrollment.
- Participating students will continue to be counted in LEA enrollment numbers, and LEAs will be required to continue providing funding based on the enrollment numbers that include participating students.
- A majority of LEAs are currently funding students above and beyond the BEP local match requirement. This amount varies widely by LEA, but according to DOE, the average amount that LEAs will retain in FY17-18 is \$1,279 per pupil. This amount is estimated to increase at an average growth rate of 2.5 percent annually in each subsequent year.
- LEAs adjust expenditures, teachers, facilities, and other items to meet the change in student population each year.
- LEAs will be able to use retained funding to offset any increase in local government expenditures or to use at their discretion for some other purpose.

**Article II, Section 24 of the Tennessee Constitution provides that: no law of general application shall impose increased expenditure requirements on cities or counties unless the General Assembly shall provide that the state share in the cost.*

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Krista M. Lee, Executive Director

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